

May 8, 2002

SUZANNE F. MEDVIDOVICH
SENIOR VICE PRESIDENT, HUMAN RESOURCES

GEORGE L. LOPEZ
VICE PRESIDENT, SOUTHWEST AREA

SUBJECT: Audit Report – Southwest Area's Efforts in Obtaining Appropriate Chargeback Credits for Identified Wage Compensation Overpayments and Refundable Disbursements (Report Number LH-AR-02-003)

This report presents the results of our audit of the Southwest Area's efforts in obtaining appropriate chargeback credits for identified wage compensation overpayments and refundable disbursements (Project Number 01HA064HC000). The audit was self-initiated. Our primary objective was to determine whether the Southwest Area's automated and manual follow-up procedures were adequate for monitoring previously identified wage compensation overpayments to employees who had returned to work.

The audit revealed that the Postal Service had policies that would ensure appropriate chargeback credit adjustments for wage compensation overpayments and third party liability refundable disbursements were received. However, five of the six Southwest Area performance clusters we reviewed did not implement automated or manual follow-up procedures to comply with the policies. The sixth performance cluster had adequate procedures but had not followed them. As a result, the Postal Service did not receive chargeback credit adjustments for approximately \$286,000. We also projected there are 223 cases representing wage compensation overpayments valued at \$702,000, that have not been followed up on.

We recommended that the Postal Service renew the emphasis on monitoring previously identified overpayments and disbursements, issue area-wide follow-up procedures that adhere to existing policies, develop a system to track previously identified wage compensation overpayments, and using information provided by the Office of Inspector General (OIG), review the cases we did not audit to determine if appropriate chargeback credits were received for those cases. In addition, we recommended the Postal Service consider implementing the Southwest Area recommendations Postal Service wide. Management agreed with the conclusions, recommendations, and monetary impacts and actions taken or proposed should address the issues identified in

this report. Management's comments and our evaluation of these comments are included in this report.

The OIG considers recommendations 1 through 5 significant and, therefore, requires OIG concurrence before closure. Consequently, the OIG requests written confirmation when corrective actions are completed. These recommendations should not be closed in the follow-up tracking system until the OIG provides written confirmation that the recommendations can be closed.

We appreciate the cooperation and courtesies provided by your staff during the review. If you have any questions, please contact Chris Nicoloff, director, Labor Management, at (214) 775-9114 or me (703) 248-2300.

Ronald K. Stith
Assistant Inspector General
for Core Operations

Attachment

cc: DeWitt O. Harris
Ronald E. Henderson
Carol M. Garvey
Arsenia P. Rhoden
Joseph G. Forgione
Karen E. McAliley
Susan M. Duchek

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EXECUTIVE SUMMARY

Introduction

This was a self-initiated audit. Our primary audit objective was to determine whether the Southwest Area's automated and manual follow-up procedures were adequate for monitoring previously identified wage compensation overpayments made to employees who had returned to work.

Results in Brief

The audit revealed that although the Postal Service had issued sufficient policies, the Southwest Area staff did not implement automated or manual follow-up procedures to effectively monitor previously identified wage compensation overpayments and third party liability refundable disbursements. As a result, the Postal Service did not receive proper chargeback credit adjustments from the Department of Labor, Office of Workers' Compensation Programs, for approximately \$286,000 of wage compensation overpayments and refundable disbursements. In addition, we project the Southwest Area has about 223 cases representing wage compensation overpayments valued at \$702,000, that have not been properly monitored or followed up. We could not project the number of third party cases and associated dollar value for refundable disbursements.

Summary of Recommendations

We recommended that Postal Service managers renew emphasis on monitoring previously identified wage compensation overpayments and third party liability refundable disbursements. In addition, area-wide monitoring and follow-up procedures, and a system to track previously identified chargeback credits are needed. Also, using information provided by the Office of Inspector General (OIG), the Postal Service should identify and review the cases not audited in this report to determine whether it has received the appropriate chargeback credits for those cases. Finally, based on the prior audit results in the Pacific Area and the finding contained in this report, we believe that the Postal Service should consider implementing our recommendations Postal Service wide.

**Summary of
Management's
Comments**

Management agreed with our recommendations to ensure appropriate chargeback credit adjustments for wage compensation overpayments and refundable disbursements are received. They also agreed to renew the emphasis on monitoring identified wage compensation overpayments and refundable disbursements; issue area wide procedures to implement Postal Service policies on monitoring overpayments and disbursements for immediate use by April 19, 2002; develop several spreadsheets to track all previously identified overpayments; and to use information provided by the OIG to review the cases that were not a part of the audit in order to determine if appropriate chargeback credits were received. Also, management agreed with the monetary impacts in the report. In addition, management agreed to implement the recommendations Postal Service wide, and will perform follow-up management reviews during fiscal year 2003 to determine the level of compliance with these recommendations. Management's comments, in their entirety, are included in Appendix D of this report.

**Overall Evaluation of
Management's
Comments**

Management's comments are responsive to our recommendations and the actions taken and planned should correct the issues identified in this report.

INTRODUCTION

Background

The Department of Labor, Office of Workers' Compensation Programs, has sole responsibility for administering the Federal Employees' Compensation Act. The act provides wage compensation benefits for wage loss and permanent impairment of specified members and functions of the body incurred by employees as a result of injury sustained while in the performance of their duties in service to the United States.

The Office of Workers' Compensation Programs Chargeback System is the mechanism by which the cost of compensation for work-related injuries and death are billed annually to employing agencies for benefits paid on their behalf, from July 1 through June 30 each year. The Postal Service was billed for over \$731 million in workers' compensation expenditures in fiscal year (FY) 2001 of which approximately \$430 million were for wage compensation charges. The Office of Workers' Compensation Programs also issues a quarterly chargeback report¹ that provides a breakdown of cases and costs that appear on the yearly chargeback bill. The purpose of the report is for the Office of Workers' Compensation Programs and the employing agencies to identify and correct errors prior to the annual billing. When errors are identified, the Office of Workers' Compensation Programs makes appropriate credit adjustments which are reflected on subsequent chargeback reports.

Our review focused on the Southwest Area's efforts to obtain credit adjustments for two types of errors--wage compensation overpayments² (compensation overpayments) and third party liability³ refundable disbursements⁴ (refundable disbursements). The Postal

¹The Automated Compensation Payment System and Bill Payment System history files are combined on a quarterly and annual basis to create the Federal Employees' Compensation Act chargeback report.

²These are overpayments of compensation provided for wage loss to civilian employees of the United States for disabilities due to personal injury or disease sustained while performing official duties. This type of wage compensation does not include continuation of pay benefits.

³Third party liability claims occur when an injury is caused by a person or object under circumstances that indicate there is legal liability on a party other than the United States government to pay the damages. The government has a subrogation interest (that is, the right to recover any payments it makes should the employee collect money from another source).

⁴The refundable disbursement of a claim consists of the total money paid by the Office of Workers' Compensation Programs from the Employees' Compensation Fund on behalf of the beneficiary, less charges for any medical file review or if applicable, medical examinations.

Service has established injury compensation control offices (control offices) and designated control points to monitor compensation overpayments and refundable disbursements to ensure the appropriate chargeback credit adjustments are received. Monitoring requires control office personnel to verify the accuracy of the quarterly chargeback reports and to notify the Office of Workers' Compensation Programs district office of any errors within 90 days of the receipt of the report. Notification must be accompanied by appropriate documentation.

Objective, Scope, and Methodology

We limited our review to focusing on follow-up procedures related to previously identified compensation overpayments, refundable disbursements, and a review of applicable internal controls. To accomplish our objective, we reviewed Postal Service policies and procedures associated with compensation overpayments and refundable disbursements. Further, we reviewed injury claim case files and interviewed control office personnel from the Southwest Area. (See Appendix A for complete objective, scope, and methodology details.)

Our audit was conducted from May 2001 through May 2002, in accordance with generally accepted government auditing standards and included such tests of internal controls as were considered necessary under the circumstances. We discussed our finding and recommendations with appropriate management officials and included their comments, where appropriate.

Prior Audit Coverage

Postal Service Office of Inspector General (OIG), Workers' Compensation Case Management (Report Number HC-AR-98-001), dated September 30, 1998, concluded that the Pacific Area performance clusters could benefit from alternative procedures to identify instances of compensation overpayments and manage compensation costs more effectively. Specifically, the performance clusters:

- Did not effectively identify compensation overpayments.
- Did not have current procedures that provided effective and efficient identification of workers' compensation overpayments.

Postal Service management concurred with the recommendations and the OIG concluded management actions taken or planned should correct the issues identified in the report.

President's Council on Integrity and Efficiency, Consolidated Report on the Audit of Employing Agency Workers' Compensation Programs (Report Number 02-96-223-04-431), dated February 16, 1996, issued by the Audit Committee, was designed to evaluate the effectiveness and efficiency of employing agency workers' compensation programs. Of the 13 OIGs included in the audit, all reported on verifying the chargeback reports. Twelve of the thirteen employing agencies were not adequately verifying their chargeback cost reports. As a result, many employing agencies were paying more in Federal Employees' Compensation Act costs than was necessary. Ten OIGs identified substantial overpayments and millions of dollars in projected questionable payments. Overall, employing agency officials agreed that improvements were needed in the workers' compensation program.

AUDIT RESULTS

Postal Service Paying More than Necessary in Wage Compensation Costs	<p>The audit revealed that the Postal Service had sufficient policies to ensure appropriate chargeback credit adjustments were received. However, five of the six Southwest Area performance clusters we reviewed did not implement follow-up procedures to comply with the policies. The sixth performance cluster had adequate procedures but had not followed them since FY 1999. As a result, the Postal Service was paying more than necessary in wage compensation costs.</p>
Policies Were Adequate	<p>The Postal Service's policy⁵ regarding the receipt of appropriate chargeback credits directed the control office and designated control point personnel to monitor compensation payments using chargeback reports and to immediately notify the applicable Office of Workers' Compensation Programs district office of any overpayment. Furthermore, the guidance instructed the control office to follow-up with actions taken by the Office of Workers' Compensation Programs on the identified overpayments.</p> <p>In addition, Postal Service policies⁶ also required the control officer or control point supervisor to monitor the action taken by the Office of Workers' Compensation Programs on refundable disbursement cases and to obtain periodic status reports until cases were closed. The policies further directed the control officer or control point supervisor to monitor the progress of refundable disbursement cases still in the recovery process.</p> <p>Our review of these policies determined that following them should enable control office staff to ensure the Postal Service receives the appropriate credit adjustments for compensation overpayments and refundable disbursements.⁷</p>

⁵Postal Service Handbook, EL-505, Injury Compensation, December 1995, Chapter 13, "Timekeeping and Accounting," Section 13.18, "Recovering Compensation Overpayment."

⁶Employee and Labor Relations Manual – Issue 13, June 1998, and Issue 16.1, February 8, 2001, respectively; Chapter 5, Employee Benefits, Subchapter 540, Injury Compensation Program, Sections 545.856 and 547.56 Third Party Liability-Department of Labor Responsibility, and Sections 545.857 and 547.57 Postal Service Responsibility.

⁷We are only referring to overpayments and refundable disbursements previously identified to the Office of Workers' Compensation Programs.

Procedures Were
Lacking

We found that five of the six Southwest Area performance clusters we reviewed did not have automated or manual follow-up procedures to ensure the appropriate chargeback credit adjustments were received from the Office of Workers' Compensation Programs. The sixth performance cluster had adequate procedures but had not followed them since FY 1999.

According to the control office staffs at the six performance clusters, they did not monitor the receipt of chargeback credits because it was considered a low priority within the scope of their overall workload requirements. We found Southwest Area performance cluster personnel failed to adequately monitor 66 out of 73 compensation overpayment and 6 out of 8 refundable disbursement cases that were previously identified to the Office of Workers' Compensation Programs as errors.

This resulted in approximately \$286,000⁸ in compensation overpayments and refundable disbursements not credited to the Postal Service. Specifically, for 260 injury claim cases administered by the Southwest Area performance clusters control office personnel, from January 1, 1995, to December 31, 2000, the Postal Service or Office of Workers' Compensation Programs had identified:

- Compensation overpayments valued at approximately \$212,000 for 73 cases, of which about \$153,000 for 49 cases was not credited to the Postal Service.
- Refundable disbursements valued at approximately \$230,000 for eight cases, of which about \$133,000⁹ for four cases was not credited to the Postal Service. (See Appendix C for details pertaining to the 260 cases reviewed.)

Further, based on sample results, we projected that the Southwest Area has about 223 cases representing compensation overpayments valued at approximately \$702,000, that have not been monitored to ensure the appropriate credits are received from the Office of Workers'

⁸After the draft report was issued, management provided us with documentation that identified a refundable disbursement valued at approximately \$74,000 which was previously credited to the Postal Service.

⁹During the course of the audit approximately \$62,000 of this amount was credited to the Postal Service.

Compensation Programs. We believe these are funds that could be recovered and put to better use. We could not project the number of cases with refundable disbursements because there was no system in place that captures this information.¹⁰

Potential Postal Service-wide Issue	Previously, we reported in the OIG report, " <u>Workers' Compensation Case Management</u> " (Report Number HC-AR-98-001), dated September 30, 1998, that the Pacific Area did not ensure that the Office of Workers' Compensation Programs had credited the Postal Service for approximately \$107,000 in overpayments. Based on the audit work in the Pacific Area and the finding contained in this report, we believe the issues identified may represent a problem Postal Service wide.
Conclusion	We believe the development of monitoring and follow-up procedures that implement existing policies would benefit the Postal Service by ensuring appropriate chargeback credits are received and thus funds are put to better use. For example, during our audit we followed-up on a previously identified refundable disbursement which resulted in the Postal Service receiving a credit adjustment valued at approximately \$62,000. This adjustment reduced the refundable disbursement balance of about \$133,000 to approximately \$71,000.
Recommendations	<p>We recommend the vice president, Southwest Area, direct the area manager, Human Resources to:</p> <ol style="list-style-type: none">1. Instruct control office staffs that monitoring and follow-up on identified wage compensation overpayments and third party liability refundable disbursements is a high priority workload requirement.

¹⁰The Postal Service is currently developing a new Injury Compensation Performance and Analysis System that may capture this information.

2. Develop and implement area-wide monitoring and follow-up procedures that adhere to existing Postal Service policies for identified wage compensation overpayments and third party liability refundable disbursements. At a minimum, the procedures should include steps that identify:
 - Who is responsible for monitoring.
 - How the monitoring should be accomplished, validated, and documented.
 - When the area office should be consulted and become involved when unsuccessful attempts to obtain appropriate chargeback credit adjustments occur.
3. Develop a system to track previously identified chargeback credits for wage compensation overpayments and third party liability refundable disbursements.
4. Using information provided by the OIG, identify and review the cases not audited in this report, to determine whether the Postal Service has received the appropriate chargeback credits for those cases.

**Management's
Comments**

Management agreed with the conclusions and recommendations to ensure appropriate chargeback credit adjustments for wage compensation overpayments and refundable disbursements are received in a timely manner. Management also agreed that a renewed emphasis on monitoring identified wage compensation overpayments and refundable disbursements was necessary.

Further, management developed new procedures that emphasize monitoring and tracking results that will be distributed area wide to implement Postal Service policies on monitoring wage compensation overpayments by April 19, 2002. In addition, management agreed to review case files that were not a part of this audit in order to determine if chargeback credits were received.

Recommendation	<p>We also recommend the senior vice president, Human Resources:</p> <p>5. Determine whether the conditions identified in this report exist Postal Service wide and where appropriate implement recommendations 1 through 4 outlined above.</p>
Management's Comments	<p>Management agreed with the recommendation and issued a Postal Service-wide memorandum dated, March 20, 2002, to implement actions that can be taken immediately. Further, during FY 2003, Postal Service Headquarters plans to sponsor management reviews to determine the level of compliance with the recommendations reported.</p>
Evaluation of Management's Comments	<p>Management's comments are responsive to recommendations 1 through 5 and the actions taken and planned should correct the issues identified in this report.</p>

APPENDIX A. OBJECTIVE, SCOPE, AND METHODOLOGY

The scope of the audit was limited to 6 years of Southwest Area workers' compensation claims data administered by control office personnel from January 1, 1995, through December 31, 2000, and focused on every week where an employee worked (or was paid) more than 20 hours while also receiving workers' compensation payments covering that week. The 6 years of workers' compensation claims data was comprised of 5 full chargeback years and 2 half chargeback years.

We negotiated a computer-matching program agreement with the Department of Labor, Office of Workers' Compensation Programs and performed a computer match of Postal Service payroll files against the Federal Employees' Compensation Act records to identify all employees who received dual benefit payments for the same timeframe.

In support of the audit objective, we employed a two-stage sample design that allowed statistical projection of both the number of cases and the net dollar overpayment amount associated with the cases not credited. The Southwest Area audit universe consisted of 1,106 injury compensation cases with a wage compensation value of approximately \$5,841,711 for cases with "service from" and "service to" dates separated by 28 days. Southwest Area office cases, intermittent wage compensation payments, initial wage compensation payments that were retroactively paid, and rural carriers who are paid on a daily basis were excluded from the universe. In addition, this audit did not include a review of continuation of pay compensation payments, medical payments, schedule awards, and death benefits. See Appendix B for the complete Statistical Sampling Plan Methodology details.

We relied extensively on computer-processed payroll data contained in the Postal Service's payroll pay data hourly history file and computer-processed wage compensation payment and case data extracted from two of the five subsystems¹¹ of the Federal Employees' Compensation Systems. We also relied on prior audit work performed by the Postal Service OIG on the FY 2000 Postal Service financial statement audit to assess the payroll function's general controls, and Department of Labor OIG prior audit work on the FY 2000 Special Report Relating to the Federal Employees' Compensation Act Special Benefit Fund policies and procedures. In addition, we traced statistically selected data to the source case management documentation. Based on prior audits results and alternative testing procedures performed during the audit, we assessed the reliability of these data, including relevant general controls, and found them adequate. As a result of tests and assessments, we consider the computer-processed data significantly reliable to satisfy the audit objectives.

¹¹We performed a computer match of Postal Service payroll data with workers' compensation payment data maintained in the Automated Compensation Payment System and specified case data contained in the National Case Management File.

APPENDIX B. STATISTICAL SAMPLING PLAN METHODOLOGY

Purpose of the Sampling

One of the audit steps in this audit was to determine the number of Southwest Area compensation overpayments and refundable disbursements that the Postal Service or Office of Workers' Compensation Programs had identified out of the sampled cases and, for those identified cases, to determine whether the Postal service had followed up to ensure that the chargeback reports had been properly credited. In support of this audit step, the audit team employed a two-stage sample design that allowed statistical projection of both the number of cases and the net dollar overpayment amount associated with the cases not credited.

Definition of the Audit Universe

The audit universe consisted of 1,106 injury compensation cases with a wage compensation value of approximately \$5,841,711 in the Southwest Area, for cases with "service from" and "service to" dates separated by 28 days. Southwest Area office cases, intermittent wage compensation payments, and initial wage compensation payments that were retroactively paid, and rural carriers who are paid on a daily basis were excluded from the universe. In addition, the audit universe did not include a review of continuation of pay compensation payments, medical payments, schedule awards, and death benefits. The universe data was obtained from the computer-matching program agreement between the Department of Labor, Office of Workers' Compensation Programs and the Postal Service OIG.

The audit universe was derived from 6 years (5 full chargeback years and 2 half chargeback years) worth of workers' compensation claims data from January 1, 1995, through December 31, 2000, matched with Postal Service payroll files for the same timeframe. The scope of the audit focused on all weeks where an employee worked (or was paid for) more than 20 hours and also received a workers' compensation payment covering that week. The only workers' compensation payments used to match against payroll were payments issued in 28-day payment cycles.

The audit team did not try to evaluate overpayment cases within this universe that had not been previously identified by either the Postal Service or Office of Workers' Compensation Programs as a compensation overpayment. There was no universe that could be predetermined for such cases.

Sample Design

The Southwest Area was randomly selected from the ten Postal Service areas in existence at the time we started our audit. We used a two-stage sample design that allocated an overall sample size of 260 cases among six locations (performance clusters). At the first stage, six out of the seven Southwest Area performance clusters were randomly selected; the Houston Performance Cluster was not selected for review. Then at the second stage, 40 cases were randomly selected for review per three locations, except for Dallas and Fort Worth with 60 and Arkansas with 20 cases. The Dallas and Fort Worth clusters were further stratified to accommodate a universe correction that was made before the other clusters were sampled. Our plan was to provide a two-sided 95 percent confidence interval with a 7 percent precision, based on auditor expectations of approximately a 50 percent level of compliance on some attributes. The allocation of the samples is shown in Table 1.

Table 1. Southwest Area Universe and Sample Counts

Performance Cluster Number	Performance Cluster Name	Total Cases in Universe	Total Cases in Sample
720	ARKANSAS PERFORMANCE CLUSTER	31	20
752	DALLAS PERFORMANCE CLUSTER	269	40
		62	20
760	FORT WORTH PERFORMANCE CLUSTER	155	40
		48	20
770	HOUSTON PERFORMANCE CLUSTER	190	0
700	LOUISIANA PERFORMANCE CLUSTER	117	40
730	OKLAHOMA PERFORMANCE CLUSTER	115	40
780	RIO GRANDE PERFORMANCE CLUSTER	119	40
	Total	1,106	260

The random selection of performance clusters and cases was made using the Army Audit Agency's Statistical Sampling System package, dated 1992, and the Audit Command Language packages, respectively.

Statistical Projections of the Sample Data

Methodology:

Sample data were projected using the formula for estimation of a population mean and total for a two-stage sample, as described in Chapter 9, of Elementary Survey Sampling, Scheaffer, Mendenhall, and Ott, c.1996. The Dallas and Fort Worth stratified samples were analyzed according to Chapter 5 of Elementary Survey Sampling before being combined with the two-stage analysis.

Projections:

Total amount of wage compensation overpayments not credited

In the sample, we observed wage compensation overpayments amounts ranging from \$0 to \$72,244 per performance cluster (or \$0 to \$25,098 per case). Based on direct projection of the sample results, we are 95 percent confident the total amount of wage compensation overpayments not credited is \$139,652 to \$1,264,832. We can be somewhat more specific about the lower bound, however, because we know from the audit actual findings that at least \$152,521 was not credited just within the sample items themselves. The projection of the wage compensation overpayments not credited is \$702,242 (average of about \$637 per case).

Number of cases wage compensation overpayments not credited

Based on projection of the sample results, we are 95 percent confident that between 124 and 321 of the 1,106-wage compensation overpayment cases (8 percent to 32 percent) were not credited. The unbiased point estimate is that 223 or 20 percent of the cases were not credited.

APPENDIX C. SOUTHWEST AREA OVERPAYMENTS BY PERFORMANCE CLUSTER NOT CREDITED TO POSTAL SERVICE

Overpayments by Southwest Area Performance Clusters Not Credited to Postal Service										
January 1, 1995 Through December 31, 2000										
Southwest Area Performance Clusters	Cases Reviewed	Cases with Compensation Overpay- ments	Value of Compensation Overpay- ments	Overpay- ment Cases Lacking Follow-up and Credit Not Received	Value of Compensation Overpay- ment Credits Not Received	Cases With Refundable Disburse- ments	Value of Refundable Disburse- ments	Refundable Disburse- ment Cases Lacking Follow-up	Refundable Disburse- ment Cases Not Credited	Value of Refundable Disburse- ment Credits Not Credited ¹¹
Dallas	60	19	\$51,330.00	19	\$43,419.00	2	\$54,560.00	2	2	\$54,560.00
Fort Worth	60	19	\$78,942.00	17	\$72,244.00	1	\$0.00	0	0	\$0.00
Arkansas	20	5	\$3,128.00	4	\$655.00	1	\$15,329.00	0	0	\$0.00
Louisiana	40	14	\$39,795.00	14	\$14,307.00	4	\$160,084.00	4	2	\$78,475.00
Oklahoma	40	5	\$6,943.00	1	\$0.00	0	\$0.00	0	0	\$0.00
Rio Grande	40	11	\$31,852.00	11	\$21,896.00	0	\$0.00	0	0	\$0.00
Totals	260	73	\$211,990.00	66	\$152,521.00	8	\$229,973.00	6	4	\$133,035.00
¹¹ As a result of our audit, a credit adjustment of \$62,000 reduced the Refundable Disbursement not credited balance to approximately \$71,000.										

APPENDIX D. MANAGEMENT'S COMMENTS

SUZANNE F. MEDVODOVICH
SOUTH WEST REGIONAL
HUMAN RESOURCES



April 5, 2002

RONALD K. STITH

SUBJECT: Draft Audit Report Southwest Area's Efforts in Obtaining
Appropriate Chargeback Credits for Identified Wage Compensation
Overpayments and Refundable Disbursements
(Report No. LH-AR-02-DRAFT)

It is noted you requested a consolidated report that includes both Headquarters and Southwest Area responses to your recommendations. Because the Southwest Area responded directly to your office (copy attached), a consolidated response at this time does not appear to be warranted. However, the area's response has been reviewed and I agree with its proposed actions.

The findings of this report were communicated to the vice presidents, Area Operations, on March 20 (copy attached). In that memorandum, recommendations were made regarding actions that can be taken immediately. These actions will greatly reduce the likelihood of erroneous wage loss compensation payments and third-party recovery disbursements from occurring in the future.

During fiscal year 2003, postal headquarters will sponsor audits and reviews to determine the level of compliance with these recommendations.

The work of the audit team and the opportunity to respond to their recommendations is appreciated. For further information, please contact Ronald E. Henderson at (202) 268-3587 or Richard Bauer at (202) 268-3678.

A handwritten signature in cursive script, reading "Suzanne F. Medvodoich".

Suzanne F. Medvodoich

Attachments

cc: George L. Lopez

Air Mail
Washington, DC 20504-4000
202-268-1000
Fax: 202-268-1000
www.usps.com

Southwest Area's Efforts in Obtaining Appropriate
Chargeback Credits for Identified Wage Compensation
Overpayments and Refundable Disbursements

LH-AR-02-003

SUZANNE F. MEDVIDOVICH
VICE PRESIDENT
HUMAN RESOURCES



March 20, 2002

VICE PRESIDENTS, AREA OPERATIONS
MANAGER, CAPITAL METRO OPERATIONS

SUBJECT: USPS-OIG Audit of Injury Compensation Program
(Overpayments and Third Party Recovery Tracking)

I recently reviewed the above referenced U.S. Postal Service Office of Inspector General (OIG) audit of the Injury Compensation Program, specifically the administration of overpayments and third party program recoveries in one of the areas. The audit found that the area did not have adequate manual or automated procedures to effectively monitor identified wage loss compensation overpayments or third party refundable disbursements. Further, the audit identified that the area did not follow up to ensure the appropriate credit adjustments were credited back to the Postal Service. This report follows a 1998 OIG audit that had identified similar issues.

During this critical financial period it is imperative that we take advantage of every opportunity to stem the outflow of funds and bring revenue back to the Postal Service. The OIG found that we did not receive chargeback credit adjustments for approximately \$360,000, and projected an additional 223 compensation cases that have not been followed up on that are valued at \$702,000. If these findings are representative of what is occurring in other areas, our potential savings could easily be in the millions of dollars.

In order to limit such occurrences in the future and maximize our recoveries, we are making the following recommendations:

• **Wage Compensation Overpayments**

Issue – Employees on the OWCP periodic rolls continue to receive benefits while in a USPS pay status, upon return-to-work.

Recommendation – Area office should take appropriate actions to ensure timely termination of OWCP benefits upon a periodic roll employee's return to work.

1. Initiate notification process to OWCP of an impending return-to-work employee. This can include a phone conversation/message and/or fax to the appropriate claims examiner.
2. Notify the employee of potential non-entitlement of any future OWCP payments through the appropriate manager to avoid any overpayment.
3. Monitor a change in pay status (PR to MC, etc.) and termination of compensation benefits in the Agency Query System (AQS) and Workers' Compensation Information System (WCIS). The HRIS Call-up Messaging System, Excel spreadsheets, manual logs, etc., should be used to track the above activity.

475 L'ENFANT PLAZA, SW
WASHINGTON, DC 20250-4000
202 268-4010
FAX: 202 268-4008
WWW.USPS.GOV

- 2 -

- Third party recoveries are not being properly credited to the agency chargeback.

Recommendation – Area office should establish/coordinate a system to track OWCP periodic rolls third party recoveries, to include the following:

1. Send the third party recovery package to the OWCP. Maintain a copy in the ICCO file.
2. Monitor credits in the WCIS. Use one of the following to track this activity: the HRIS Call-up Messaging System, Excel spreadsheets, or manual logs.
3. Establish a means by which direct follow-up with the OWCP can be accomplished when the appropriate credit does not occur in a timely fashion (two accounting periods, etc.). This could include referral to the area office for assistance.

Thank you in advance for your prompt attention to these issues.


Suzanne F. Medvidovich

cc: Managers, Human Resources (Area)
Human Resources Analysts, Injury Compensation (Area)

Southwest Area's Efforts in Obtaining Appropriate
Chargeback Credits for Identified Wage Compensation
Overpayments and Refundable Disbursements

LH-AR-02-003

GEORGE L. LOPEZ
VICE PRESIDENT, SOUTHWEST AREA OPERATIONS



April 2, 2002

Ronald K. Stith
Assistant Inspector General
For Core Operations

Subject: Draft Audit Report – Southwest Area's Efforts In Obtaining Appropriate
Chargeback Credits for Identified Wage Compensation Overpayments
and Refundable Disbursements
(Report No. LH-AR-02-DRAFT)

We have reviewed the draft audit report identified above, and we generally agree with its conclusions and recommendations.

We agree completely that a renewed emphasis on monitoring identified overpayments and disbursements is necessary. Our first step was to ensure that the Injury Compensation units in each district are aware that the Office of Workers' Compensation Programs (OWCP) is responsible for crediting overpayments to the Postal Service and that the Postal Service is required to monitor that process. We have also developed new procedures that will be employed area wide to implement Postal Service policies on monitoring overpayments. We expect to complete our internal review of this Overpayment Standard Operating Procedure (OP SOP) not later than April 12, 2002 and to distribute the procedures to the District Injury Compensation offices, for immediate use, by April 19, 2002. We believe that the new OP SOP, with its emphasis on monitoring and tracking of results, will result in proactive management and monitoring of overpayments.

We are providing with this response a copy of the Draft Overpayment Standard Operating Procedure, including flowcharts for the process.

We fully agree with the recommendation to review case files that were not a part of this audit in order to determine if chargeback credits were received. A spreadsheet similar to that utilized by the OIG, will be utilized to accurately track all previously identified overpayments. The process of reviewing non-current case files is cumbersome and time consuming, and we anticipate there will be some challenges to accomplishing the task. Nevertheless, we will assess Area resources and the possibility of seeking assistance from HQ to schedule and accomplish this audit.

We do not expect that there will be any significant additional costs to the Postal Service when the monitoring procedures are incorporated in the routine handling of injury compensation cases. As noted above, it could be costly, however, to review non-current cases to ascertain and follow-up on chargeback credits and reimbursements. Another factor that impacts the success of any monitoring program

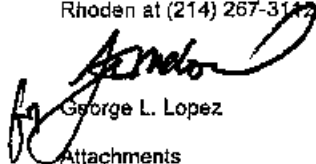
PO Box 224748
Dallas TX 75222-4748
214-619-8660
Fax: 214-905-9227

Ronald K. Stith
Page 2
April 2, 2002

is the OWCP's decision to waive wage overpayments on some cases. Through established channels, we will keep the VP for HR informed about our new procedures to monitor overpayments, including the actual results we are able to achieve when the procedures are fully in place. We will also open discussions with Headquarters Management on a range of OWCP-related issues that have the potential to protect Postal Service funds and to streamline the processes involved. We think this process could be begun in May of this year, with development of a manageable list of issues, identified by priority. Together with Headquarters Management, we can then develop a calendar for addressing them in an orderly fashion and within the context of the transformation plan that the Postmaster General will shortly announce. Among the issues that we hope to explore further with Headquarters are the following:

- That OWCP consider collecting overpayments from claimants who were timely notified. This could prevent unnecessary waivers and ensure the Area's chargeback is credited.
- Support of regulatory changes that would allow the Postal Service to collect overpayments from employees who have been timely notified of the existence of an overpayment, but have failed to repay the funds. This could preclude unnecessary waivers, resulting in greater protection for postal funds.
- That standard operating procedures for overpayment be included in the revision of the EL-505, the Basic Injury Compensation course, and as part of the review process in the Program Review Guidelines.
- That the Postal Service consider internal self-audits to be conducted on an annual basis.
- That the OIG share examples of best practices so that self-audits can be a positive learning experience.
- That the OIG provide technical support to our efforts to identify wage overpayments as well as third-party overpayments.

For further information, contact Carol Garvey at (214) 819-8660 or Arsenia P. Rhoden at (214) 267-3143.


George L. Lopez
Attachments

**Southwest Area's Efforts in Obtaining Appropriate
Chargeback Credits for Identified Wage Compensation
Overpayments and Refundable Disbursements**

LH-AR-02-003

MANAGER, HUMAN RESOURCES
SOUTHWEST AREA



April 26, 2002

Ronald K. Stith
Assistant Inspector General
For Core Operations
1735 N Lynn St
Arlington VA 22209-2020

Subject: Draft Audit Report – Southwest Area's Efforts in Obtaining Appropriate
Chargeback Credits for Identified Wage Compensation Overpayments and
Refundable Disbursements
(Report No. LH-AR-02-DRAFT)

Dear Mr. Stith:

This is in response to the recent request for our views on the monetary impact, specifically the validity of two of the team's findings relayed in the draft audit report identified above.

In the sample of cases the team selected for examination, they found actual wage compensation overpayments of about \$153,000 in 49 cases. From that sample, the team projected that the Southwest Area has about 223 cases representing wage compensation overpayments valued at \$702,000.

The draft audit report described the team's overall methodology and statistical sampling plan methodology in, respectively, Appendices A and B. Based on those descriptions, we do not disagree with the report's findings as to wage compensation overpayments.

We appreciate the opportunity you afforded my staff to further review and discuss your team's findings and the courtesy and assistance you have provided.


Carol Garvey

PO Box 225459
DALLAS TX 75222-5459
214-813-8682
FAX: 214-505-9224

SOUTHWEST AREA
INJURY COMPENSATION



**OVERPAYMENT SOP
IDENTIFICATION AND CORRECTION**

Postal Policies on recovering compensation overpayment are written in Postal Service Handbook, *EL-605, Injury Compensation*, December 1995, Chapter 13, Timekeeping and Accounting, Section 13.18, "Recovering Compensation Overpayment."

The District Injury Compensation Manager is responsible for implementation and management of the procedures outlined in the Overpayment SOP.

1. All return to work activity must be tracked and documented in the case file.
2. Notify OWCP Claims Examiner via email when the employee returns to work. Follow-up with a copy of accepted job offer, if applicable.
3. **For all employees returning to work from OWCP rolls:** Immediately upon the employee's return to work, issue letter (*notice1.doc*) regarding potential overpayments to each employee. Copy OWCP and the supervisor.
4. **Employees returning to work less than full time from OWCP rolls:** In addition to Step 3, if the employee returns to work for less than full time, verify in the Agency Query System (AQS) that compensation has been properly adjusted and also issue letter (*pwfile.doc*) to advise employee to complete CA-7 and CA-7a for partial hours compensation.
5. Notify Personnel Services to process PS Form 50 to change from LDC 87 to productive LDC, where applicable.
6. Review (AQS) on an Accounting Period basis until it reflects that the "Current Case Status" has been changed appropriately. Document file. If no overpayment exists, proceed with regular case management procedures.
7. Each accounting period, review the Chargeback Detail Report (PHC931P1) in WCIS (Shortcut Code R0979) to ensure wage loss compensation payments have been terminated or reduced appropriately. Document file accordingly.
8. It is important to avoid dual payments by USPS and OWCP; therefore, when an employee returns to work part time, Injury Compensation must advise the supervisor to input holiday, sick or annual leave only for the number of hours as those worked. This will avoid dual payment by USPS and OWCP. Use spreadsheet (*receivables/pwlist.xls*) to track employees who have returned to work at less than full time. This spreadsheet must be distributed to employee's supervisors prior to every holiday. Supervisors should maintain this spreadsheet until its update is issued.
9. If compensation has not been terminated or reduced appropriately, proceed to Collection and Follow-up.

COLLECTION AND FOLLOW-UP

1. If an overpayment is identified, issue letter (*owcp1.doc*) to OWCP, with a copy to the employee and the supervisor.
2. Each Accounting Period, monitor for response from OWCP. If OWCP does not correct and declare an overpayment, send or fax a follow-up letter (*owcp2.doc*).
3. Use Excel spreadsheet (*receivables/overpayment.xls*) to monitor and track the status of the overpayment and Chargeback credits. Review each accounting period.
4. When credit has been verified, place a copy of the printout verifying recovery in file. Document file when overpayment is deducted from Schedule Award, or continued compensation, etc.
5. Document file when employee is working full time and OWCP has requested a salary offset to repay overpayment.
6. When overpayment is being deducted from pay and employee resigns or is terminated, coordinate with Finance to ensure overpayment is deducted from terminal leave and/or retirement funds. This must be done prior to issuance of the final check.
7. After all the above steps have been taken, and OWCP has failed to credit the overpayment within one Postal quarter, consult with the Area Human Resources Analyst for further action. Submit evidence of your documented efforts to get the credit, along with your referral.
8. Use *receivables/overpayment.xls* spreadsheet to track all waivers of overpayments declared by OWCP and enter the total amount to account for unrecovered overpayments.
9. Submit copies of Spreadsheets to Area Analyst on a quarterly basis.

THIRD PARTY RECOVERY CREDIT

Postal policies on monitoring for third party recovery credit are written in Chapter 5, Employee Benefits, Subchapter 540, Injury Compensation Program, Section 547.56, Third Party Recovery Action, OWCP Responsibility, and Section 547.57, Postal Service Responsibility.

The District Injury Compensation Manager is responsible for implementation and management of the procedures outlined in Third Party Recovery Credit SOP.

1. Follow established procedures set forth in *ELM-547, Third Party Liability* and *EL-505-10, Third Party Liability*.
2. Be sure to send the third party recovery check along with PS Form 2556, with claimant's name and case number, to the proper address so that the Postal account can be credited properly. Per EL-505 Appendix B, "OWCP District Office Lockbox Depository."
3. Follow up on the status of Third Party Recovery Credits with the OWCP Fiscal Officer by emails. Document your efforts using the Excel spreadsheet (*receivables/thirdparty.xls*).
4. If recovery is not credited within one Postal quarter, consult with the Area Human Resources Analyst for further action. If the case is referred to the Area, submit evidence of your documented efforts to get the credit, along with your referral.
5. When credit has been verified, place a copy of the Chargeback detail in the file to document credit. Exclude from documents placed in a case file information about any other employee.
6. Document any other related actions on the Injury Compensation claim control register. If necessary, the tracking spreadsheet must be reviewed and updated, each accounting period.
7. Submit copies of Spreadsheets to Area Analyst on a quarterly basis.

INJURY COMPENSATION



<DATE>

<Employee Name>
<Address>
<City, State Zip+4>

RE: <Claim Number>
Return to Work Date: <DATE>

Dear <Employee Name>:

You recently returned to work following your absence due to your job related injury. The Office of Workers' Compensation Programs (OWCP) was notified of this action and requested to terminate your compensation payments.

Be advised, if you continue to receive compensation from OWCP for lost wages while in a pay status with the Postal Service, you must notify the Injury Compensation Control Office (ICCO) immediately to make arrangements to refund the overpayment.

The Federal Employees' Compensation Act at 5 USC 8129 authorizes the recovery of compensation overpayments. Therefore, if you do not return compensation payments you are not entitled to, you will be in an overpayment status and action will be taken to collect the monies.

Please call the Injury Compensation office at xxx-xxx-xxxx if you have any questions or concerns.

Injury Compensation Manager
District

cc: OWCP
Supervisor
File

CERTIFIED MAIL:

notice1.doc

INJURY COMPENSATION



<DATE>

<Name>

<Address>

<City, State, ZIP+4>

Re: Claim Number: <NUMBER>
Return to Work Date: <DATE>

Dear <Employee Name>:

You recently returned to work for less than your normal work hours. Therefore, you should file forms CA-7 and CA-7a to claim partial wage loss benefits from the Office of Workers' Compensation Programs (OWCP). These forms should be filed every two weeks unless OWCP notifies you otherwise; or your doctor releases you to work full time. If your doctor gives you a full time work release, you should notify the Injury Compensation Office immediately.

Your supervisor should input your time each day with <_XXX_> hours IOD-LWOP, TACS code 049.

In addition, please be aware that holiday, sick, and/or annual leave used will be equivalent to your current scheduled work hours. For instance, if you normally work 6 hours, and receive 2 hours IOD-LWOP, you are only entitled to receive 6 hours of leave pay. If you receive 8 hours pay from the Postal Service for any day that you receive OWCP compensation for partial wage loss, the extra hours are subject to being declared an overpayment. Collection and recovery will be pursued as deemed appropriate.

Should you have any questions regarding this matter, please contact me at <(XXX) XXX-XXXX>.

Sincerely,

Human Resources Specialist
District

Enclosures CA-7, CA-7a

cc: OWCP
Supervisor
File

pwfile.doc

EMPLOYEES WORKING PARTIAL HOURS
District AP FY 2011

	Last Name	First Name	Claim No.	SSN	Number of Hours Work/Leave Daily*	Number of Hours LWOP/ROD Daily	Employee Office/Work Unit	Comments
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
11								
12								
13								
14								
15								
16								
17								
18								
19								
20								
21								
22								
23								
24								
25								
26								
27								
28								
29								
30								
31								
32								

receivables
pw/lat
SWA IC - Revised 4/2/02 8:34 AM

* Leave used should not be more than number of hours worked daily.

INJURY COMPENSATION



<DATE>

Claims Examiner
<OWCP District Office>
<Street>
<City State Zip+4>

RE: <Claimant Name>
<DOI>
<Claim Number>

Dear Claims Examiner:

The above referenced claimant returned to work on <DATE>. Be advised that the claimant was notified via letter (copy attached) of the steps to be taken to avoid a potential overpayment status. After a review of the file we've determined an overpayment may exist.

The result of our review of this case revealed the following:

"Description of situation that created the overpayment".

Based on the above information, we are requesting you declare and pursue recovery of an overpayment.

Please feel free to contact me at <xxx-xxx-xxxx> if you have any questions or concerns.

Injury Compensation Manager
<District>

Attachment

cc: Employee
Supervisor
File

owcp1.doc

INJURY COMPENSATION



DATE

Claims Manager
<OWCP District Office>
<Street>
<City State Zip+4>

RE: <Claimant Name>
<DOI>
<Claim Number>

Dear Claims Manager:

On <DATE> we wrote to the claims examiner (letter attached) advising that we had identified an overpayment regarding the above reference case. As of this date we have not gotten a response.

Please advise what action has or will be taken to correct this overpayment situation.

Your prompt reply is appreciated. Please feel free to call me at <xxx-xxx-xxxx> if you have any questions or concerns.

Injury Compensation Manager
<District>

Attachment

cc: Employee
Supervisor
File

owcp2.doc

Southwest Area's Efforts in Obtaining Appropriate
Chargeback Credits for Identified Wage Compensation
Overpayments and Refundable Disbursements

LH-AR-02-003

OVERPAYMENT RECOVERY
District AP FY

	Last Name	First Name	Claim #	SSN	DOI	Amount Overpayment	Date of Notice to Employee	Date of Initial Notice to OWCP	Date of Second Notice to OWCP	Date of Return to Area	Date of OWCP Waiver	Date Credit Received	Comments
1													
2													
3													
4													
5													
6													
7													
8													
9													
10													
11													
12													
13													
14													
15													
16													
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34													

SWA IC: Revised 4/2002 8:31 AM

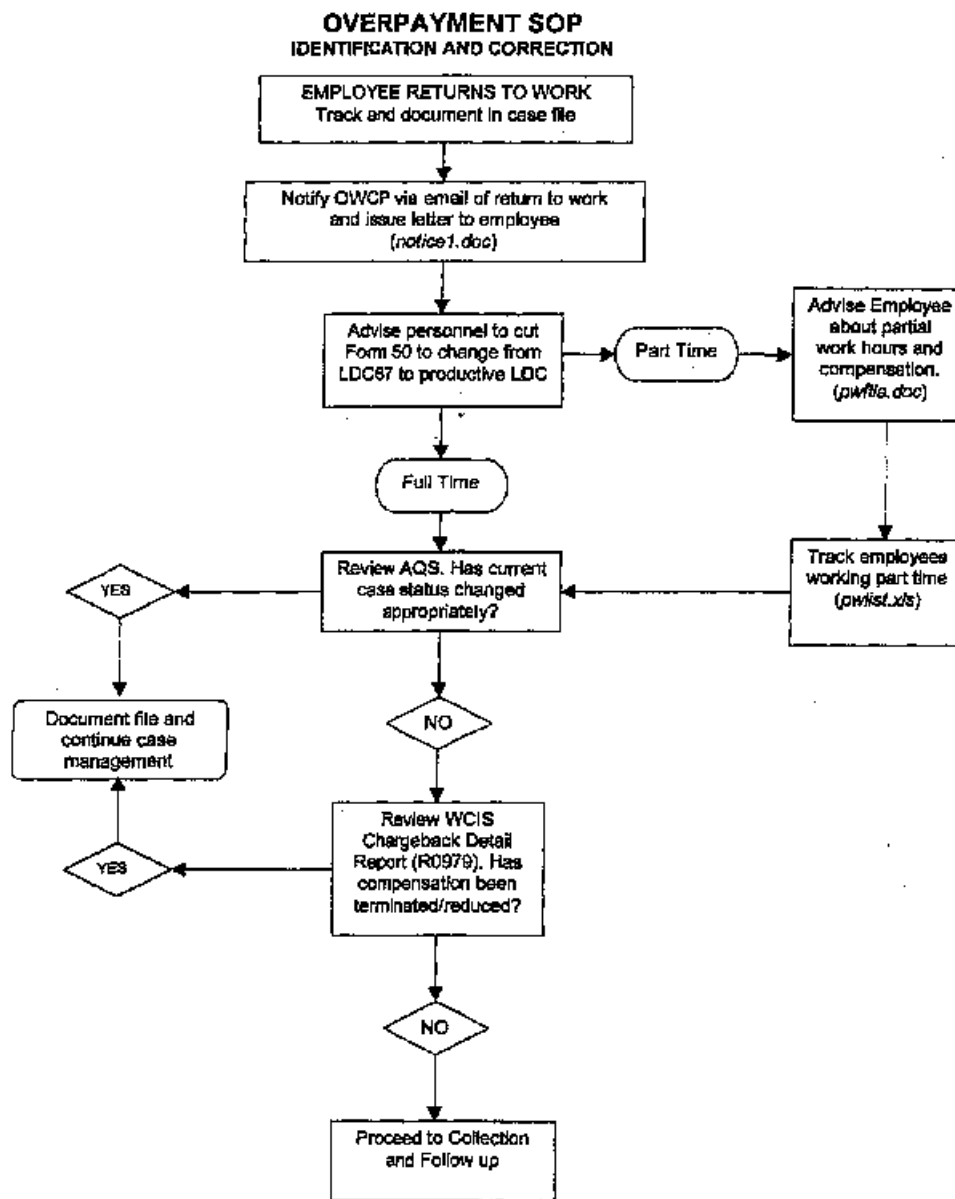
receivables
overpayment

THIRD PARTY RECOVERY
District AP FY

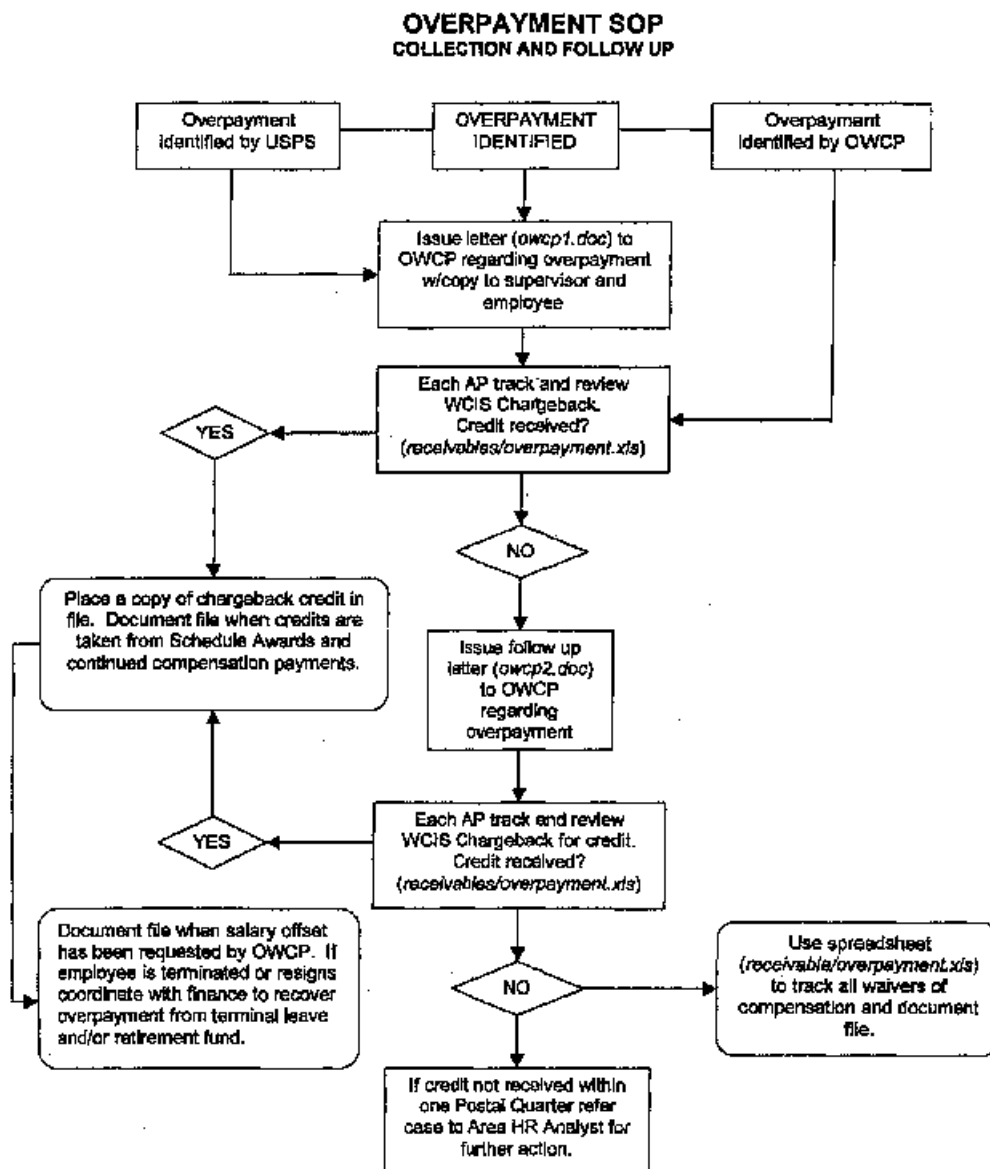
	Last Name	First Name	Claim No	SSN	DOB	USPS Recovery Amount	Date Form 2558 to OWCP	Date(s) of follow-up	Date Referred to Area	Date Credit Received	Remarks
1											
2											
3											
4											
5											
6											
7											
8											
9											
10											
11											
12											
13											
14											
15											
16											
17											

receivables
third party

SWA IC: Revised 4/20/2 6:32 AM

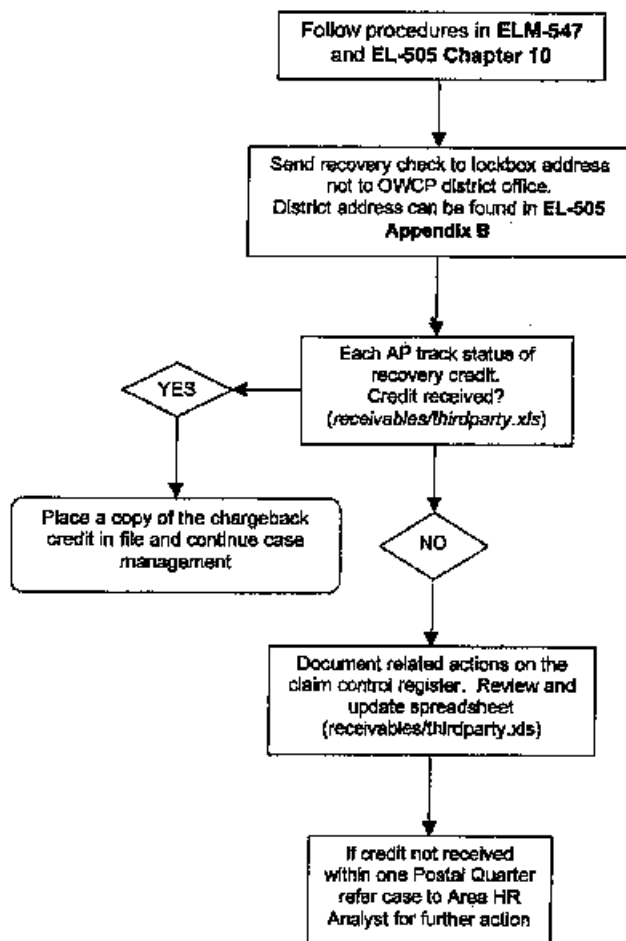


Overpayment SOP
SWA: 04/02/02



Overpayment SOP
SWA IC - 04/02/02

THIRD PARTY RECOVERY CREDIT



Overpayment SOP
SWA IC - 04/02/02